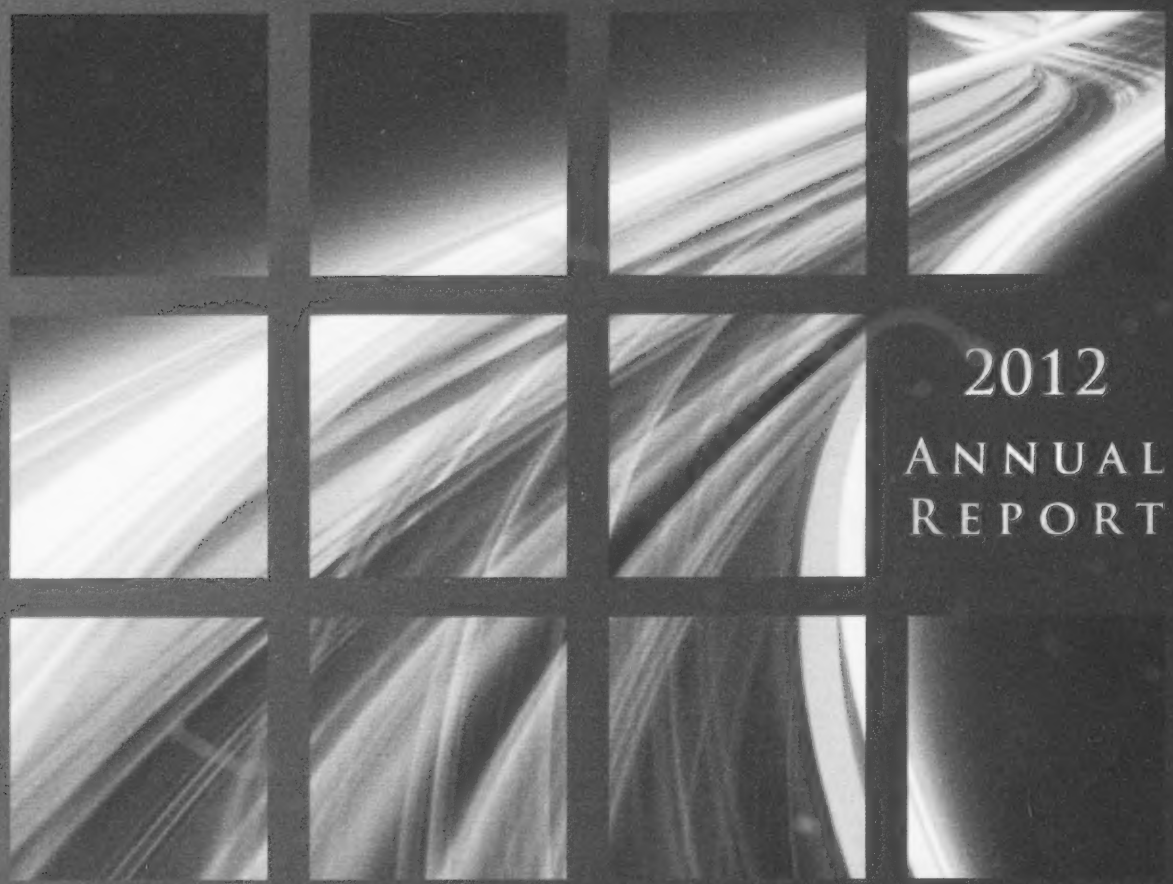
INSTITUT C.D. HOWE INSTITUTE



2012 ANNUAL REPORT

Essential Policy Intelligence

Our Mission

The C.D. Howe Institute is an independent not-for-profit organization that aims to raise Canadians' living standards by fostering economically sound public policies. It is a trusted source of essential policy intelligence, with research that is rigorous, evidence-based, and peer-reviewed, recommendations that are relevant, constructive, and timely, and communications that are clear, authoritative and practical.

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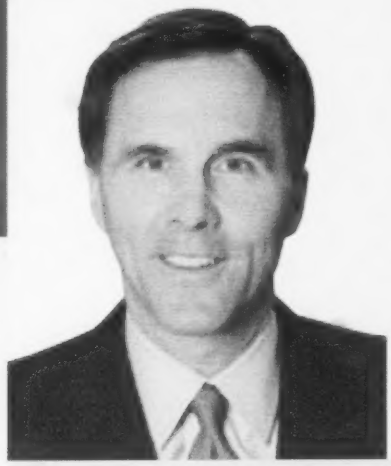

Message from the Chairman

High Expectations and Generous Support Are Critical to the Institute's Impact

"The Institute plays a crucial role in Canadian policy development."

William Morneau
Chair, C.D. Howe Institute

Measuring the impact and effectiveness of government policies is a primary mission of the C.D. Howe Institute. So is producing policy research that enables ordinary citizens to assess the degree to which policies and programs are meeting their objectives.

The C.D. Howe Institute's Annual Report is our opportunity to document our own performance and to be accountable for our members and friends.

As Board Chair, I oversee the Institute's governance on behalf of its primary stakeholders – the individuals, associations, corporations and universities that give so generously in support of its policy work.

As this report indicates, the Institute made a tangible contribution to Canadian public discourse in 2012.

- The Institute convened a record 52 policy events in 2012, bringing together policy and business leaders and senior scholars to discuss policy development in what David Dodge has termed "the best common room in Canada."
- The Institute published 50 research studies and its Monetary Policy council issued interest rate recommendations in advance of each Bank of Canada rate setting meeting.
- Institute research won three major awards, the best performance of any Canadian policy think tank.

I would be remiss without offering a special thank you to the 25 donors across Canada who responded to **Alf Wirth**'s challenge grant, and completed the funding of the $2.1 million Endowment for Special Studies.

This year, the Institute lost a close friend. I want to pay special tribute to **Roger Phillips**, who served on the Institute's Board from 1991 through 2003, and subsequently was an honorary director. He was an exemplary supporter of the Institute, deeply engaged in its policy work and passionate about its mission. In 2006, he contributed what was then the largest gift in the Institute's history, donating $1 million to create the Institute's first endowed chair, the Roger Phillips Scholar in Social Policy. We will miss him.

It is a pleasure to give special thanks to the Institute's President & CEO, **Bill Robson**, for his drive and leadership. **Duncan Munn**, the Institute's Senior VP & COO, played a critical behind the scenes role in planning and executing the Institute's major endeavours. Thanks are also due to the policy analysts and scholars who play such an important role in our research and conferences and to the Institute's staff and executive. Thank you all.

I also want to acknowledge **David Dodge**, **Lindsay Gordon**, **Brian K. Johnston**, **Joseph L. Rotman** and **Henry W. Sykes**, who stepped down from the Board in 2012, and thank them for their important contributions. We welcome **Charles Brindamour**, **Dianne Craig**, **Jeffrey Lozon** and **Stephen Smith**, who joined the Board in 2012.

Finally, I pay tribute to the lofty standards the Institute's members and friends set for the quality and relevance of its policy work. The Institute plays a crucial role in Canadian policy development. Thank you for your high expectations, and for providing the support that makes all of our work possible.

Message from the President & CEO

Sound Economic Policies Are Vital to Growth

"With your help, we are building a stronger environment for public and private prosperity in Canada, in the months ahead, and for generations to come."

William B.P. Robson
President and Chief Executive Officer

Canadians had fresh reason to reflect on their happy position among the world's best governed countries in 2012. Experience elsewhere shows how pervasive pressure to make economically unsound choices is, and the damage to dynamism and living standards that results. The C.D. Howe Institute works with its business and individual members, scholars, experts, and policymakers across the country to reinforce the environment that supports good public policy in Canada.

In 2012, we published top-quality work on a wide range of topics relevant to federal, provincial, and municipal policymakers. To highlight just a few of the reports detailed in the following pages, we addressed Canada's need to join the Trans-Pacific Partnership, the sustainability of Old Age Security, border infrastructure, the conduct and regulation of the CMHC, water use, healthcare funding, financial-sector regulation, and foreign investment rules. We broke new ground in measuring the impact of land-transfer and property taxes on households and business investment. And we urged reform of MP and federal public service pensions – on which topic a *Globe and Mail* editorial singled the Institute's work as a likely spur to government action.

Sometimes the Institute's impact occurs through gradual changes in awareness of problems and solutions; sometimes it is focused and direct. The latter was evident following the publication of Alex Laurin's "Killing the Goose that Laid the Golden Egg." Following its demonstration that proposed personal income-tax increases in Quebec would yield far less revenue than projected, the Quebec government substantially revised its plans to hike rates on high-income earners.

In addition to its contribution to policy development in 2012, the Institute's research won academic and peer recognition.

- *Toward Improving Canada's Skilled Immigration Policy: An Evaluation Approach* by Charles M. Beach, Alan G. Green and Christopher Worswick was shortlisted for the Donner Book Prize, and won the Canadian Economics Association's 2012 Purvis Memorial Prize for excellence in economic policy writing.
- *"Legal for Life: Why Canadians Need a Lifetime Retirement Saving Limit"* by James Pierlot won the 2012 John Hanson Memorial Prize from the US-based Actuarial Foundation.

These accomplishments, and the many conferences, policy-council seminars and events that promote high-level conversation and understanding among Canadian leaders in so many fields, are a credit to the talent, drive, and dedication of everyone who works so hard on the Institute's behalf. In particular, I thank my colleagues on the Institute's staff, the Institute's Board of Directors, the many leaders in business, public service and academia who contribute to our efforts – and, of course, the members, subscribers and donors whose support and involvement makes our work possible.

With your help, we are building a stronger environment for public and private prosperity in Canada, in the months ahead, and for generations to come.

Message from the Senior Vice President & COO

Strengthening the Scope, Scale and Impact of the Institute's Policy Work in 2012

"These initiatives helped advance the Institute's research agenda and increase the effectiveness of its policy work."

Duncan Munn
Senior VP and Chief Operating Officer

The Institute's policy recommendations, and the strategy it pursues for its own management, are remarkably consistent: Think deliberately before acting, base all plans on empirical evidence, and maintain openness and accountability within high ethical standards.

Based on this framework, here's how the Institute performed on its core administrative objectives in 2012:

1. Utilize contributions and the Institute's network to launch new policy initiatives

- Two years ago the Institute launched a quiet fundraising campaign for an ambitious healthcare reform policy program. This program was officially launched in 2012, with four major research publications and a series of healthcare conferences and policy events. Intensive work commenced in 2012 on several major healthcare research projects that will be published in 2013 and beyond.

2. Provide value for members and subscribers by strengthening "the best common room in Canada"

- The Institute held a record 52 policy events in 2012. We continued to build our events programs in Calgary and Montreal, to increase the ability of members in these cities to participate in our unique, off-the-record policy development dialogue. In addition to holding roundtable events, our Annual Calgary Policy Dinner, sponsored by GE, featured **David Mulroney**, former Canadian Ambassador to China. In Montreal, our Annual Policy dinner, sponsored by the Power Corporation of Canada, featured **Philippe Zeller**, Ambassador of France to Canada and **Lawrence Cannon**, Ambassador of Canada to France.
- In Toronto, we inaugurated the *Patrons' Circle Dinner Series* to recognize Institute supporters who contribute at a leadership level. Attendence at this Series is strictly capped to provide an intimate and convivial atmosphere. **Jeffrey Immelt**, CEO of GE, was the inaugural Patrons' Circle speaker.
- The impact of all this work can be seen on the Institute's bottom line and in the size of its network. Attendance at 2012 policy events increased by roughly 13% compared to 2011, and broke 3,500 for the first time.
- Policy event revenues surpassed the $500,000 mark, again for the first time.

3. Build on the success of the Endowment for Special Studies and the Monetary Policy Endowment

- The successful completion of fundraising for these initiatives took the Institute's endowments to the point where a change in administrative procedures was required to optimize return on investment and ensure that donor funds are managed with an appropriate risk-reward balance. The Board of Directors adopted a new investment policy and investment manager. Rather than make an annual income disbursement, the Institute's endowments will disburse three years cash flow based on expected income, which will be maintained short and liquid with the balance of capital invested for a longer horizon. More effective treasury management will improve yield while preserving capital over time.

These initiatives helped advance the Institute's research agenda and increase the effectiveness of its policy work. They could not have taken place without strong and loyal member support, the involvement of policy leaders and scholars, and the hard work and expertise of my colleagues. Thank you all, for helping us make a positive contribution to Canada's future through the development of smart and effective public policies.

The Institute's 2012 Research Mission

The Institute's Research Program in 2012

"The Institute's research agenda is developed and managed by an engaged, committed team of analysts, supported by a network of best-in-class scholars and sectoral experts."

Finn Poschmann
Vice President, Research

The Institute's research program is driven, productive and timely. We aim to address public policy questions that matter, when they matter, and our publications deliver important policy analysis to policymakers, media, business and the public in useable form: with concision and thoroughness.

In recent years, global financial uncertainty, and government policy responses to it, have dominated the research program. Whether in its monetary policy work, or in its approach to big, current fiscal questions, such as to how to unwind expansive government commitments and see to it that spending returns to a sustainable path, the Institute delivers thoughtful, timely analysis.

Sustainability includes a response to the pressures created within private and public pension systems, and the need to develop savings tools that will meet Canadians' needs in the decades to come, as population ageing and fiscal retrenchment each place negative pressure on our potential growth and income paths.

Against this backdrop, attention to and innovation in approaches to productivity, competitiveness and trade are central features of a thoughtful policy research agenda. Domestic economic and social wellbeing will depend on our abilities to compete and thrive in a dynamic, competitive global marketplace, and making shrewd investment, tax and competition policy choices will emerge as crucial in weaving a vibrant economic policy framework.

The Institute's research agenda is developed and managed by an engaged, committed team of analysts, supported by a network of best-in-class scholars and sectoral experts. Our agenda stretches over a six to twenty-four month horizon, and projects are reviewed at each stage of development, to ensure their pertinence and accuracy. Every paper is refereed by academic experts and by interested parties with relevant expertise and knowledge. The process ensures the prize-winning quality that characterizes our research publications, and of which our team is very proud, and likewise ensures that our policy research delivers essential policy intelligence, when and where it is needed.

Finn Poschmann

The research team: from top left,
Senior Policy Analyst, **Philippe Bergevin**;
Vice President, Research, **Finn Poschmann**;
Associate Vice President, **Daniel Schwanen**;
Senior Policy Analyst, **Benjamin Dachis**;
seated from left,
Senior Policy Analyst, **Colin Busby**;
Senior Coordinator, Research and Executive Assistant to the Vice President, Research, **Kristine Gray**;
and Associate Director of Research, **Alexandre Laurin**.

Fiscal and Tax Policy in 2012

How governments choose to raise revenue, spend and invest on public infrastructure, goods and services, and manage their balance sheets has a big impact on the health of our economy and on our living standards. Sound tax policy ensures that the structure and rates of taxation do not needlessly discourage work, saving and investment. Transparent government accounting and budgeting help ensure hard-earned tax revenues are well spent, yet developing measures to forestall crushing levels of public debt – including contingent liabilities – are an increasingly pressing challenge.

Our annual shadow budget, released prior to the federal budget, focuses on a sustainable fiscal stance, spending discipline, and cost-neutral fiscal policies that foster economic growth. In the same vein, the annual release of the C.D. Howe Institute's Pinocchio Index, which measures the spending overruns of federal, provincial and territorial governments, addresses control over, and accountability for, government expenditures and stimulates transparent government accounting.

Among the many tax policy publications driven through its Fiscal and Tax Competitiveness Council, the Institute responded to income tax hike proposals by Ontario, Québec, and BC with studies showing their counterproductive impact on the tax base. In difficult budget times, many governments in Canada and abroad attempted to raise tax rates on high-income earners and corporations. Experience has shown, however, that taxpayers in these categories are particularly likely to respond to tax changes by adjusting their behaviour – impeding economic growth and leading to disappointing results. And high quality research matters in the policy world: in the wake of a C.D. Howe study showing destructive likely impacts for its proposal, Quebec retreated from its proposal to dramatically raise tax rates for top earners.

Fiscal and Tax Competitiveness Council in 2012

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Thomas A. Wilson, Senior Advisor, Institute for Policy Analysis, University of Toronto

Monetary Policy in 2012

In 2012, the global economic environment continued to prove challenging for policymakers. Financial risks in the Eurozone and elsewhere, coupled with subdued economic growth in much of the developed world, have heightened the need for in-depth, independent monetary research. In this spirit, the Institute has continued to place a pronounced focus on monetary and macroeconomic policy issues within its research agenda. The creation of the Institute's Monetary Policy Endowment in 2010 has since provided the means to solidify and enhance the reputation of the Institute as Canada's foremost independent working group on monetary policy.

While Canada's monetary policy framework has proven remarkably successful and resilient, the recent financial crisis has compelled a reassessment of its framework. With that objective in mind, the Institute has provided an influential forum for policy studies that covered numerous aspects of potential improvements to Canada's monetary policy framework.

Distinguished authors on these projects include two former Governors of the Bank of Canada, John Crow and Gordon Thiessen, and a former Senior Deputy Governor, Paul Jenkins, as well as the Institute's monetary policy scholar, Christopher Ragan of McGill University.

Meanwhile, the Institute's Monetary Policy Council continued to provide policy advice to the Bank of Canada. The Council, composed of 12 of Canada's most distinguished financial market and monetary economists, provides a regular independent assessment of Canadian monetary policy to the Bank of Canada, financial-market participants and economic policy commentators.

With the tepid world economic recovery, and the continued volatility in financial markets, the Institute's work on monetary policy issues will continue to command attention throughout 2013.

Monetary Policy Council in 2012

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International Economic Policy in 2012

The C.D. Howe Institute's International Economic Policy Program focused in 2012 on rules for foreign investment, Canada's potential accession to the Trans-Pacific Partnership, leading-edge development and regulatory issues, and Canada's strategic trade priorities.

A major December 2011 paper by Phil Bergevin and Daniel Schwanen proposing reforms to the *Investment Canada Act* provided the platform for timely interventions on the topic of foreign investment throughout 2012, as debate raged over the proposed acquisition of two Canadian oil and gas companies by foreign state-owned enterprises. This work, presented at the Canadian Bar Association Foreign Investment Review Conference in June 2012, culminated in November in a paper specifically devoted to the issue of foreign SOE acquisitions. That paper prefigured some key aspects of the December 2012 decision by the government of Canada on this issue.

An Institute paper by Laura Dawson, published in February 2012, outlined both the need and possibilities for Canada to join the TPP negotiations with the support of the United States. The route proposed in the paper proved fruitful later that year, when Canada joined the talks with the endorsement of the US administration.

Other in-depth papers published in 2012 called for a renewed strategic focus on more open trade and

investment, examined the role of private regulation in international commerce, and demonstrated the relative effectiveness of centering foreign aid on education. A major Institute conference on Canada-India links in December 2012 provided in-depth discussions that will inform work on a Canada-India economic partnership agreement in 2013.

Institute experts also presented before key stakeholder audiences in Calgary, Ottawa, Toronto and Halifax, leveraging Institute research to discuss what is at stake for Canada on issues ranging from trade in services to the Canada-EU negotiations for a Comprehensive Economic and Trade Agreement. They also commented widely in the media on topics ranging from the European fuel quality directive to foreign investment protection and promotion agreements.

International Economic Policy Council in 2012

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Economic Growth and Innovation in 2012

The Institute's economic growth and innovation program focused on some of the pressing themes in the Canadian economy – with results to match.

The Institute has created the authoritative guide to business cycles in Canada. By examining data going back to before the Great Depression, the C.D. Howe Institute Business Cycle Council has identified the start, end and severity of every recession since 1926. With recent discussion of whether Canada risks a return to recession, the authoritative word on whether Canada is in a recession will now come from the Institute.

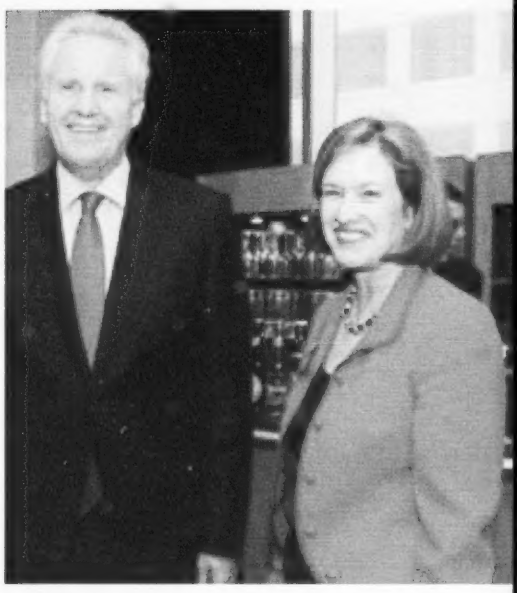
Through the work of its Financial Services Research Initiative, the Institute paid special attention to policy influences on the financial sector's performance in 2012. With respect to financial stability, former Bank of Canada governors and deputy governors published three studies on the optimal framework for macro-prudential financial regulation in Canada. In the aftermath of the financial crisis, the Institute also tackled the question of credit rating

agencies and potential reforms to their regulation. Our payment system also needs changes to its regulatory framework to ensure current payment technologies keep track with innovations in the rest of the world. And in the wake of a key ruling from the Supreme Court of Canada, the Institute's work assessed the chances of reaching federal-provincial agreement on creating a common securities regulator and having provinces come on board.

The C.D. Howe Institute's Competition Policy Council's second full year was also a great success. Its recommendation that the Competition Bureau take a more active role as an advocate for competition in regulated sectors was endorsed in one of the Interim Competition Commissioner's early addresses.

The Institute's work in 2012 on innovation policy focused on the role of venture capital in spurring innovation. The Institute's finding that private venture capital is the most effective means of spurring innovation supported a renewed federal focus on the development of private venture capital funds. Further, the Institute's work showing the ineffectiveness of Labour Sponsored Venture Capital in spurring innovation was explicitly cited as a reason the federal government eliminated these tax credits in the 2013 budget.

No topic received as much attention in Canada in 2012 as energy infrastructure. With papers on the Churchill Falls Hydroelectric Generating Station and on how to reform the environmental regulatory review process for major infrastructure projects, the Institute figured prominently in this debate. The Institute's proposals on environmental regulatory review reform prefigured the federal government's moves in the 2012 budget.



Jeff Immelt, CEO of GE, spoke at the Institute's Inaugural Patrons' Circle Event. He is pictured with **Elyse Allan**, President & CEO of GE Canada and an Institute Board Member.

Financial Services Research Initiative in 2012

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Murray J. Taylor, IGM Financial Inc.
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Social Policy in 2012

The design and delivery of Canada's major social programs – healthcare, education, pensions, social assistance and immigration – are top-of-mind concerns for Canadians and core research areas for the C.D. Howe Institute. For example, the renewing of contracts with provincial physicians in many provinces was a lightning rod for controversy, highlighting the need for research informed by experience in a range of jurisdictions, as we develop a healthcare model that is both sustainable and serves Canadians' healthcare needs.

The Institute's social policy research program was active in these and other areas, providing critical advice to policymakers.

An example of policy research's impact is the C.D. Howe Institute's groundbreaking work on immigration policy, which fostered reforms to Canada's skilled worker immigration program. The Purvis Prize winning book, *Toward Improving Canada's Skilled Immigration Policy: An Evaluation Approach*, by Charles Beach, Alan Green and Christopher Worswick, examined the labour market outcomes for successive waves of immigrants to Canada. They found that the way Canada screens potential skilled applicants – via the "point system" – was giving too much weight to certain characteristics and too little weight to other factors, which was contributing to falling employment and wage outcomes for arriving immigrants over time.

Beach, Green and Worswick suggested that the federal government reweight the points system by giving less value to foreign work experience, which most domestic employers heavily discounted upon arrival, and give relatively more value to language fluency and immigrants in younger age groups. These recommendations were acted upon by the federal government and should lead to improvements in Canada's immigration system and bolster the employment prospects of new immigrants to Canada.

From Left: **Charles Beach** (Queen's) and **Christopher Worswick** (Carleton) at an Institute event celebrating their prize-winning book, *Toward Improving Canada's Skilled Immigration Policy: An Evaluation Approach*. The C.D. Howe Institute book was co-written with the late Alan Green (Queen's).

Governance and Public Institutions in 2012

The organization of government and its institutions, and the incentives they create, have an enormous impact on our quality of life. Among Canada's regulated industries and institutions, the financial sector constitutes the infrastructure of commerce and the backbone of the economy. Financial intermediation is the mechanism that facilitates risk-sharing and risk mitigation, as well as regional and intertemporal exchange of financial assets and obligations.

Housing finance represents an extraordinarily large component of Canada's economic framework, and the system has long depended on management of housing market risks through the Canada Mortgage and Housing Corporation. As those risks have mounted, the federal government has drawn on Institute research to step up governance and oversight at CMHC, accompanied by steps to modernize the institutional and financial framework within which the housing finance market operates.

In today's world of an aging population and low interest rates, the governance of Canada's pension system is a determining influence on future living standards through its effects on labour markets, on saving and investment, and on productivity growth. Research on this front, led by the Pension Policy Council, looked at recent reforms to the pension plans of federal public servants, uniformed personnel and MPs, and the rapidly climbing fair-value cost of old and new federal employee pension benefit accruals – a looming liability for Canada's future taxpayers.

When the federal government floated plans to expand pension savings for Canadians via pooled registered savings plans, implementation questions raised a host of concerns, which the Institute addressed in its research program. Other areas of research included proposed reforms to promote optimal annuitization of retirement capital, to limit the risk that Canadians will outlive their retirement savings, and the extent to which defined-benefit public sector pension plans tend to favour plan participants with steep career-earnings profiles at the expense of those with flatter profiles.

Pension Policy Council in 2012

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2012 Policy Event Speakers

The Institute's off-the-record, invitation-only policy roundtables, conferences and special events bring together corporate executives, policy leaders, senior civil servants, and acclaimed scholars for substantive discussions on policy issues. We thank the following individuals speaking at the Institute's policy events in 2012.

David Mulroney, former Ambassador of Canada to the People's Republic of China, spoke on Canada-China relations at the Institute's Annual Calgary Policy Dinner on Oct. 24, 2012. The dinner was sponsored by **GE Canada** (lead sponsor) and **Walton Global Investments** (supporting sponsor).

Manmohan Agarwal, Former Dean, School of International Studies, JNU, and Senior Fellow, Centre for International Governance Innovation

Craig Alexander, Senior Vice President & Chief Economist, TD Bank

Anil Arora, Assistant Deputy Minister, Minerals and Metals Sector, Natural Resources Canada

Charles Beach, Professor, Economics Department, Queen's University

Perrin Beatty, President and CEO, Canadian Chamber of Commerce

John Kim Bell, President and CEO, Bell & Bernard Ltd.

Jerome Berthelette, Assistant Auditor General of Canada

Leo de Bever, CEO and Chief Investment Officer, AIMCo

Alexandra Iwanchuk Bibbee, Senior Economist and Head of Canada Desk, Organisation for Economic Cooperation and Development

Ghislain Boudreau, VP Public Affairs, Pfizer Canada

Loren Brandt, Professor, Economics, University of Toronto; and Research Fellow, Institute for the Study of Labor (Bonn)

Andrew Briggs, Chair in Health Economics, University of Glasgow

Nola Buhr, Professor of Accounting, Edwards School of Business, University of Saskatchewan

Colin Busby, Senior Policy Analyst, C.D. Howe Institute

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David Dodge, Chancellor, Queen's University; Senior Advisor, Bennett Jones LLP; and Director, C.D. Howe Institute

Joseph Doucet, Interim Dean and Enbridge Professor of Energy Policy, University of Alberta

Don Drummond, Matthews Fellow on Global Public Policy, Queen's University; Co-Chair, C.D. Howe Institute Fiscal and Tax Competitiveness Council; Senior Fellow, C.D. Howe Institute

The Hon. Brad Duguid, Ontario Minister of Economic Development and Innovation

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Calvin Helin, Businessman, author of *Dances with Dependency*, member of the Tsimshian Nation BC

Michael Horgan, Deputy Minister, Finance Canada

Don Husereau, Senior Associate, Institute of Health Economics

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Warren Jestin, Senior Vice President and Chief Economist, Scotiabank

Wenran Jiang, Special Advisor on China to the Energy Council and Associate Professor of Political Science, University of Alberta

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Donald Juzwishin, Director, Health Technology Assessment and Innovation, Alberta Health Services

** Titles are as of date of speaking engagement*

2012 Policy Event Speakers

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Prof. **Wendy Dobson**'s $400,000 gift pushed the Endowment Fund for Special Studies over the top. **Alfred G. Wirth**'s $1.05 million challenge grant launched the campaign. Twenty-five individuals supported the $2.1 million campaign – the largest in the Institute's history.

Benefactors, Development and Giving

The Philanthropic Force behind the Endowment for Special Studies

The completion of fundraising for the $2.1 million Endowment for Special Studies marks a key stage in the Institute's evolution as "a privately funded public good."

When noted philanthropist **Roger Phillips** announced a $1 million gift to establish the Roger Phillips Scholar in Social Policy at the 2006 tribute dinner for outgoing CEO Jack Mintz, he initiated a new era of individual philanthropy at the Institute.

Inspired by this gift, Institute Board member and philanthropist **Alf Wirth** established a challenge grant of $1.05 million to encourage individuals, through matching donations, to increase the Institute's core research capacity by creating an Endowment for Special Studies. More than 25 individuals from coast to coast supported the campaign. A $400,000 gift from **Wendy Dobson**, distinguished economics professor at the Rotman School of Management and a former President of the C.D. Howe Institute, pushed it over the top.

In making her gift, Dobson emphasized the Institute's decades-long contributions to the country's most important economic policy debates on fiscal and monetary policy goals, trade liberalization, and structural change.

Alf Wirth said that all of the endowment's supporters have played a major role in strengthening the Institute's philanthropic culture.

An Outstanding Philanthropist:

The Board and Staff of the C.D. Howe Institute mourn the passing of **Roger Phillips**, who served on the Institute's Board from 1991 through 2003, and subsequently was an honorary director. He was an exemplary supporter of the Institute, deeply engaged in its policy work and passionate about its mission. In 2006, he contributed what was then the largest gift in the Institute's history, donating $1 million to create the Institute's first endowed chair, the Roger Phillips Scholar in Social Policy. We offer our sympathy to his family and friends, and are pleased to acknowledge our profound gratitude for his contributions.

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Targeted major gifts and event sponsorships enable supporters to bolster the Institute's research and dissemination capacities in specific areas of interest. They complement the annual membership campaign, strengthening the Institute and enabling it to recruit scholars and support programs that enhance its ability to develop innovative solutions to policy challenges. The Institute's policy impact would not have been possible in the absence of support from the following donors and sponsors:

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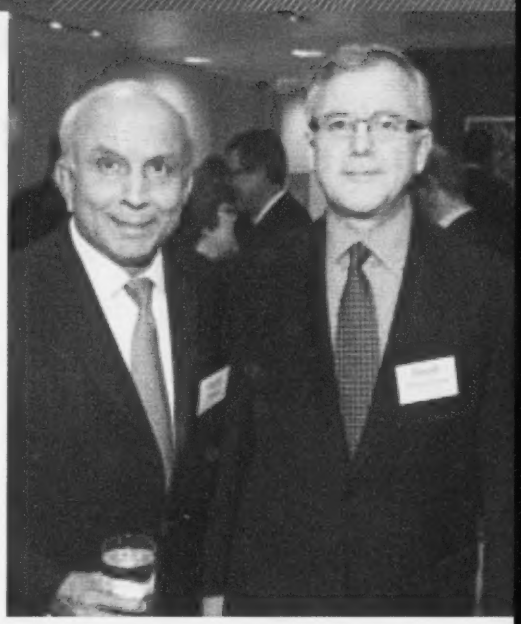
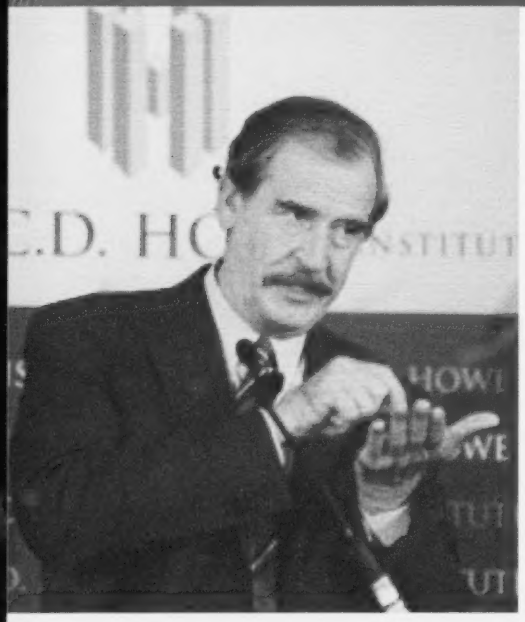


From left: **Prem Watsa**, Chairman and CEO, Fairfax Financial Holdings Limited, and **Hugh MacKinnon**, Chairman and CEO of Bennett Jones. Watsa was speaking at an Institute Conference on Canada-India Economic Relations sponsored by Bennet Jones, ICICI Bank and Blakes.

Charles Evans, President & CEO, Federal Reserve Bank of Chicago gave the Fed's perspective on U.S. monetary policy at the 2012 Benefactors' Lecture in Toronto. The Lecture was sponsored by **Briar Foster**, Chairman and Founder of Foster & Associates.



Vicente Fox, former President of Mexico, spoke at the 2012 Director's Dinner on "Mapping the North American Geopolitical Landscape – The View from Mexico." The event was sponsored by Bennett Jones LLP.

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Philippe Zeller, Ambassador of France to Canada (left) and Lawrence Cannon, Ambassador of Canada to France, spoke at the Annual Montreal Policy Dinner on Dec. 3, 2012. The Dinner was sponsored by Power Corporation of Canada.

Report of the Independent Auditor on the Summary Financial Statements

To the Members of
C.D. Howe Institute

The accompanying summary financial statements, which comprise the summary balance sheets as at December 31, 2012, December 31, 2011 and January 1, 2011, and the summary statements of revenue and expenses and of changes in fund balances for the years then ended, and related notes, are derived from the audited financial statements of the C.D. Howe Institute (the "Institute") for the years ended December 31, 2012 and December 31, 2011. We expressed an unmodified audit opinion on those financial statements in our report dated May 30, 2013. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by Canadian accounting standards for not-for-profit organizations. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Institute.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in the Note.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of the Institute for the years ended December 31, 2012 and December 31, 2011 are a fair summary of those financial statements, in accordance with the basis described in the Note.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
May 30, 2013

C.D. Howe Institute
Summary balance sheets
as at December 31, 2012, December 21, 2011 and January 1, 2011

	December 31, 2012	December 31, 2011	January 1, 2011
	$	$	$
Assets			
Current assets			
Cash and cash equivalents	2,509,177	3,244,849	3,123,858
Short-term investments	433,972	3,165,219	3,070,921
Accounts receivable	300,028	161,983	319,726
Prepaid expenses	45,721	36,915	63,998
	3,288,898	6,608,966	6,578,503
Long-term investments	3,844,335		
Capital assets	752,788	759,195	390,462
	7,886,021	7,368,161	6,968,965
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	221,004	203,136	124,467
Deferred revenue	1,657,240	924,855	1,440,180
	1,878,244	1,127,991	1,564,647
Long-term			
Deferred capital contributions	285,729	309,693	333,657
Deferred rent	227,295	237,423	234,527
	513,024	547,116	568,184
	2,391,268	1,675,107	2,132,831
Fund balances			
Invested in capital assets	467,059	449,502	56,805
Operating	1,098,629	1,071,886	1,401,388
Endowment funds	3,929,065	4,171,666	3,377,941
	5,494,753	5,693,054	4,836,134
	7,886,021	7,368,161	6,968,965

C.D. Howe Institute
Note to the summary financial statements
December 31, 2012 and 2011

Basis of the summary financial statements

The C.D. Howe Institute (the "Institute") has prepared these summary financial statements to be included as part of its annual report. The Institute has determined that the level of aggregation presented is adequate for the readers of the annual report.

The audited financial statements can be obtained from the Institute.

C.D. Howe Institute
Summary statements of revenue and expenses
years ended December 31, 2012 and 2011

	2012	2011
	$	$
Revenues		
Contributions and subscriptions	3,330,818	3,167,758
Meetings revenue	539,712	461,760
Interest income	20,663	27,662
Endowments	131,300	9,412
Sale of publications and sponsorships	18,921	22,306
Contract revenue	20,590	23,046
	4,062,004	3,711,944
Expenses		
Research, administrative and project expenses	3,884,837	3,552,821
Amortization	132,867	95,928
	4,017,704	3,648,749
Excess of revenue over expenses for the year	44,300	63,195

C.D. Howe Institute
Summary statements of changes in fund balances
years ended December 31, 2012 and 2011

	Invested in Capital Assets Fund	Operating Fund	Endowment Funds	2012 Total	2011 Total
	$	$	$	$	$
Balances, beginning of year	449,502	1,071,886	4,171,666	5,693,054	4,836,134
Excess of revenue over expenses for the year	(108,903)	153,203	-	44,300	63,195
Changes to unrealized gains (losses) on short-term investments	-	-	2,595	2,595	(2,595)
Unrealized gains (losses) on short-term investments	-	-	50,136	50,136	(172)
Contributions received during the year	-	-	583,664	583,664	754,446
Excess of endowment revenue over expenses	-	-	38,058	38,058	42,046
Transfer to deferred revenue	-	-	(917,054)	(917,054)	-
Purchases of capital assets	126,460	(126,460)	-	-	-
Balances, end of year	467,059	1,098,629	3,929,065	5,494,753	5,693,054

During the year, the endowments earned investment income of $169,358 (2011 – $51,458). Of this amount, $131,300 (2011 – $9,412) is included in the summary statement of revenue and expenses as endowment revenue and in research, administrative and project expenses, respectively. The unspent amount for the year of $38,058 (2011 – $42,046) is included in the Endowment Fund balance.